



# CITADEL

## Group of Funds

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

MYDAS Fund

Citadel Multi-Sector Income Fund

Series S-1 Income Fund

Citadel Income & Growth Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

# Citadel Income & Growth Fund

ANNUAL REPORT 2005

# Citadel Income & Growth Fund

Citadel Income & Growth Fund (the “Fund” or “Citadel Income & Growth”) is a closed-end investment trust which became listed on the Toronto Stock Exchange on October 16, 2003. The Fund has a termination date of June 30, 2010, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund’s Declaration of Trust.

Pursuant to the Fund’s distribution policy, the Fund does not have a fixed distribution target, but will annually determine an appropriate distribution rate for the next year based upon expected distributions from its portfolio. For 2005, the Fund paid monthly cash distributions of \$0.0708 per trust unit for a total of \$0.8496 per unit (2004 - \$0.8496 per unit). For tax purposes, 2005 distributions were allocated as 49.9% other taxable income, 7.6% dividend income and 42.5% return of capital.

## INVESTMENT HIGHLIGHTS:

	2005	2004	2003
Net Asset Value per Unit <sup>(1)</sup>	\$ 11.81	\$ 11.50	\$ 10.22
Market Price per Unit <sup>(1)</sup>	\$ 10.83	\$ 10.90	\$ 10.40
Trading Premium (Discount)	(8.3%)	(5.2%)	1.8%
Cash Distributions per Unit	\$ 0.8496	\$ 0.8496	\$ 0.1416
Trailing Yield <sup>(2)</sup>	7.8%	7.8%	n/a
Market Capitalization (\$ millions)	\$ 145.9	\$ 156.4	\$ 152.0

<sup>(1)</sup> Net asset value and market price per unit are based on year end values.

<sup>(2)</sup> Trailing yield is based on the 12 months cash distributions declared in each year expressed as a percentage of year end market price.

Stock Symbol	CIF.un (TSX)
2005 High/Low	\$11.38 – \$8.79
2005 Cash Distributions	\$0.8496 per unit
2005 Taxable % <sup>(3)</sup>	55.0%
2005 Total Return <sup>(4)</sup>	7.7%
2005 Management Expense Ratio	1.8%

<sup>(3)</sup> Taxable percentage is based on all other taxable income, two-thirds of dividend income and one-half of capital gains expressed as a percentage of total distributions.

<sup>(4)</sup> Total return is based upon the Fund’s change in market price plus the reinvestment of cash distributions in additional units of the Fund.

# Management Report of Fund Performance

(April 6, 2006)

This annual report includes both the annual management report of fund performance, containing financial highlights, and the complete annual financial statements of Citadel Income & Growth Fund (the "Fund" or "Citadel Income & Growth").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at [www.citadelfunds.com](http://www.citadelfunds.com) to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

## INVESTMENT OBJECTIVES AND STRATEGIES

Citadel Income & Growth's investment objectives are to provide investors with monthly cash distributions while maximizing total return through capital appreciation. In order to meet these objectives, the Fund's investment manager actively manages a diverse portfolio of Canadian income funds, other income securities and common shares within certain asset class diversification limits.

## RISK

There are a number of risks associated with an investment in Citadel Income & Growth. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks. During 2005, the Fund increased its weighting in the oil & gas royalty trusts as commodity prices rose and reduced its weightings in the interest rate sensitive Reits and pipeline / energy investments as interest rates climbed throughout the year. Also, the Fund disposed of holdings of a number of issuers that had become overvalued in the opinion of the Fund's investment manager.

## RESULTS OF OPERATIONS

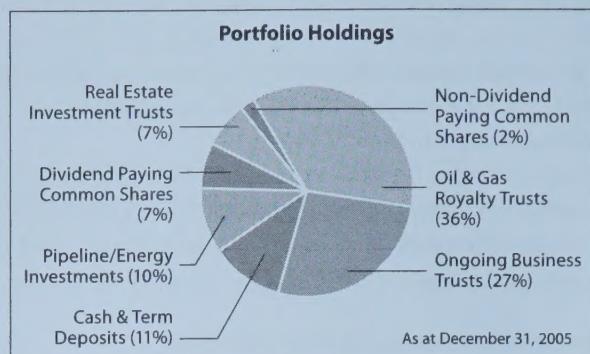
The strong gains experienced by Citadel Income & Growth Fund in the oil and gas royalty sector were offset by declines in certain ongoing business trusts and unit repurchases resulting in an overall decrease in net asset value for the Fund during 2005. At December 31, 2005, the Fund's net assets were \$159.0 million or \$11.81 per unit, down from \$165.1 million or \$11.50 per unit at the end of 2004. On a per unit basis, net asset value increased due to the large number of units repurchased at discounts to net asset value during the year under the mandatory repurchase program.

The Fund's market price remained relatively stable year over year, closing the year at \$10.83 per unit down from \$10.90 per unit at the end of 2004. Citadel Income & Growth's change in unit price plus monthly distributions produced a 7.7% total return for 2005, while the Fund generated an 11.3% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index increased by 31.0% in 2005.

Total revenue for 2005 of \$13.3 million was comparable to the \$13.4 million generated in the prior year. Administrative and investment manager fees, which are paid in units and calculated in reference to the Fund's net asset value, totaled \$1.9 million (2004 - \$1.8 million) for the year. The higher fee is a result of a higher average net asset value in 2005 compared to the net asset value throughout 2004. Trailer fees, which are also calculated in reference to the Fund's net asset value, totaled \$0.6 million for both 2005 and 2004. General and administration costs, including other expenses, totaled \$0.38 million in both years. After total expenses of \$2.9 million (\$2.8 million in 2004), the Fund generated net investment income of \$10.3 million or \$0.75 per unit for 2005 compared to \$10.7 million or \$0.73 per unit in 2004.

During 2005, Citadel Income & Growth paid total cash distributions of \$11.7 million or \$0.8496 per unit compared to \$12.3 million or \$0.8496 per unit in 2004.

During 2005, the Fund made several dispositions, realizing capital losses of \$1.1 million (2004 – net capital gains of \$3.1 million). The Fund's portfolio experienced unrealized gains of \$5.9 million during the year compared to \$17.0 million of unrealized gains in 2004. Taking into account these realized and unrealized gains, the Fund generated total results of operations of \$15.1 million or \$1.09 per unit for 2005 compared to \$30.8 million or \$2.11 per unit for 2004. Stronger results of operations for 2004 were due to the significantly higher realized and unrealized gains in that year.



During 2005, the Fund increased its investments in the oil and gas royalty trusts and decreased its position in the ongoing business trust sector. With net dispositions in 2005, the Fund's cash balance increased from \$5.5 million at December 31, 2004 to \$17.2 million at December 31, 2005. The Fund's portfolio mix was not optimal in 2005. As compared to the sector weightings of the S&P/TSX Income Trust Index, the Fund was underweight the strong performing energy and real estate investment trust ("Reit") sectors. As a result of a combination of the Fund's cash position, its underweight position in energy and Reits relative to the Index and its position in a number of underperforming business trusts, the Fund's performance trailed the Index.

#### TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

Citadel Income & Growth's unit price traded at an average discount to net asset value of 9.8% in 2005 compared to an average discount to net asset value of 4.1% in 2004. As a result, the Fund repurchased 685,833 units for cancellation under its mandatory repurchase program at an average cost of \$10.77 per unit (2004 – 466,750 units at an average cost of \$10.04 per unit). Under its mandatory repurchase program, Citadel Income & Growth is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%. In addition, the Fund repurchased 402,400 units in 2005 pursuant to a normal course issuer bid at an average cost of \$10.96 (2004 – no units).



#### RECENT DEVELOPMENTS

The current combination of a strong Canadian economy, low inflation, high commodity prices and relatively low interest rates provide a favorable environment and a positive outlook for the income trust sector. Citadel Income & Growth expects to maintain its monthly distribution rate of \$0.0708 per unit for 2006 based upon the Fund's current portfolio and analysts' estimates of distributions.

#### FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

#### RELATED PARTY TRANSACTIONS

Citadel IG Management Ltd. is the administrator of Citadel Income & Growth, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, administrative and investment management fees are based upon 1.1% of the average weekly net asset value of the Fund, payable in units monthly in arrears. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

#### FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance for the past 3 years. This information is derived from the Fund's audited annual financial statements.

##### Net Asset Value per Unit

	2005	2004	2003 <sup>(1)</sup>
NAV, beginning of year	\$ 11.50	\$ 10.22	\$ 9.42
Increase (decrease) from operations:			
Total revenue	0.96	0.92	0.17
Total expenses	(0.21)	(0.19)	(0.04)
Realized gains (losses)	(0.08)	0.21	0.03
Unrealized gains (losses)	0.42	1.17	0.78
Total increase (decrease) from operations	1.09	2.11	0.94
Distributions:			
From net investment income	0.85	0.85	0.14
Total annual distributions	0.85	0.85	0.14
NAV, end of year	\$ 11.81	\$ 11.50	\$ 10.22

<sup>(1)</sup> The Fund commenced operations on October 16, 2003.

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

##### Ratios and Supplemental Data

	2005	2004	2003
Net assets (\$000's)	\$ 159,028	\$ 165,090	\$ 149,316
Number of units outstanding	13,470,460	14,349,822	14,613,166
Management expense ratio	1.81%	1.82%	1.84%
Portfolio turnover ratio	11.30%	19.44%	3.98%
Trading expense ratio	0.07%	0.11%	0.48%
Closing market price	\$ 10.83	\$ 10.90	\$ 10.40

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

## MANAGEMENT FEES

Pursuant to the administrative services agreement, administrative and investment management fees are based upon 1.1% of the average weekly net asset value of the Fund, payable in units monthly in arrears. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

## PAST PERFORMANCE

Citadel Income & Growth's performance numbers from inception in October 2003 to December 31, 2005 are based upon the Fund's change in market price plus the reinvestment of all distributions in additional units of the Fund. The Fund's historical performance does not necessarily indicate how it will perform in the future.



## ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for the periods ended December 31, 2005 for Citadel Income & Growth based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index.

	1 Year	Since inception
Citadel Income & Growth (market price)	7.7%	12.4%
Citadel Income & Growth (net asset value)	11.3%	20.1%
S&P/TSX Capped Income Trust Index	31.0%	32.6%

## SUMMARY OF INVESTMENT PORTFOLIO

The Fund's portfolio as at December 31, 2005 and 2004 consisted of the following subgroups:

	2005	2004
Oil & Gas Royalty Trusts	35.5%	24.2%
Ongoing Business Trusts	27.0%	40.4%
Pipeline / Energy Investments	10.3%	12.3%
Common Shares	9.6%	10.2%
Real Estate Investment Trusts	6.7%	9.6%
Citadel Income & Growth units (repurchased for cancellation)	0.1%	–
Cash and Term Deposits	10.8%	3.3%
<b>Total Investments</b>	<b>100.0%</b>	<b>100.0%</b>

The top 25 holdings as at December 31, 2005 based on market values:

Bonavista Energy Trust	6.0%	Retirement Residences Reit	2.2%
Vermilion Energy Trust	5.6%	Medical Facilities Corporation	2.2%
ARC Energy Trust	4.9%	Custom Direct Income Fund	2.2%
TransForce Income Fund	3.8%	Livingston International Income Fund	2.1%
Crescent Point Energy Trust	3.3%	Fairborne Energy Trust	2.1%
Acclaim Energy Trust	3.2%	Paramount Energy Trust	2.1%
CCS Income Trust	3.1%	CanWest Global Communications Inc.	2.0%
Harvest Energy Trust	3.1%	The Thomson Corporation	2.0%
Calloway Reit	3.0%	Trinidad Energy Services Income Fund	2.0%
Energy Savings Income Fund	3.0%	Shawcor Ltd. Class A	2.0%
Cineplex Galaxy Income Fund	2.9%	Esprit Energy Trust	1.9%
Prism Canadian Income Fund	2.7%	Rogers Sugar Income Fund	1.9%
Superior Plus Income Fund	2.2%	<b>% of Total Portfolio</b>	<b>71.3%</b>

## Management's Responsibility Statement

The financial statements of Citadel Income & Growth Fund have been prepared by Citadel IG Management Ltd. ("CIGM") and approved by the Board of Directors of CIGM. CIGM is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CIGM maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CIGM is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CIGM and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

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James T. Bruvall  
Chief Executive Officer  
Citadel IG Management Ltd.  
April 6, 2006



Darren K. Duncan  
Chief Financial Officer  
Citadel IG Management Ltd.

## Auditors' Report to Unitholders

To the Unitholders of Citadel Income & Growth Fund

We have audited the statements of net assets and investments of Citadel Income & Growth Fund as at December 31, 2005 and 2004, and the statements of operations and changes in net assets for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2005 and 2004 and the results of its operations and the changes in its net assets for the years ended December 31, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

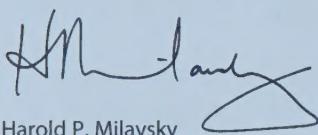
Chartered Accountants  
Calgary, Alberta  
March 10, 2006

## Statement of Net Assets

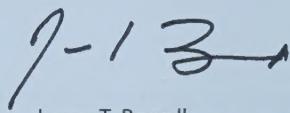
As at December 31,	2005	2004
<b>Assets</b>		
Investments, at market	\$ 141,902,312	\$ 159,841,770
Cash and term deposits	17,168,412	5,460,137
Revenue receivable	1,001,580	1,327,242
Accounts receivable	94,408	57,063
Prepaid expenses	52,355	52,413
	<b>160,219,067</b>	<b>166,738,625</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	148,176	157,848
Payable for investments purchased	89,039	475,200
<u>Distributions payable</u>	<u>953,709</u>	<u>1,015,967</u>
	<b>1,190,924</b>	<b>1,649,015</b>
<b>Net Assets representing Unitholders' Equity</b>	<b>\$ 159,028,143</b>	<b>\$ 165,089,610</b>
<b>Units outstanding (note 3)</b>	<b>13,470,460</b>	<b>14,349,822</b>
<b>Net asset value per unit</b>	<b>\$ 11.81</b>	<b>\$ 11.50</b>

*see accompanying notes*

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

## Statement of Operations

Years Ended December 31,	2005	2004
<b>Revenue</b>		
Distribution income	\$ 13,085,475	\$ 13,019,735
Interest income	184,105	424,186
	13,269,580	13,443,921
<b>Expenses</b>		
Administrative and investment manager fees (note 4)	1,909,326	1,791,104
Trailer fee (note 5)	642,398	608,703
General and administration costs	191,266	154,422
Directors' fees	83,132	79,935
Reporting costs	36,403	70,296
Audit fees	23,282	12,839
Trustee fees	20,419	19,757
Custodial fees	16,238	27,910
Legal fees	6,666	16,130
	2,929,130	2,781,096
<b>Net investment income</b>	10,340,450	10,662,825
<b>Net realized gain (loss) on sale of investments (note 6)</b>	(1,076,143)	3,066,473
<b>Net change in unrealized gain on investments</b>	5,852,087	17,030,455
<b>Total results of operations</b>	\$ 15,116,394	\$ 30,759,753
<b>Results of operations per unit<sup>(1)</sup></b>		
Net investment income	\$ 0.75	\$ 0.73
Net realized gain (loss) on sale of investments	(0.08)	0.21
Net change in unrealized gain on investments	0.42	1.17
	\$ 1.09	\$ 2.11

<sup>(1)</sup> Based on the weighted average number of units outstanding.

see accompanying notes

## Statement of Changes in Net Assets

Years Ended December 31,	2005	2004
<b>Net Assets – beginning of year</b>	\$ 165,089,610	\$ 149,316,429
Operations:		
Net investment income	10,340,450	10,662,825
Net realized gain (loss) on sale of investments	(1,076,143)	3,066,473
Net change in unrealized gain on investments	5,852,087	17,030,455
	15,116,394	30,759,753
Unitholder Transactions:		
Issuance of trust units, net	2,273,908	2,031,780
Repurchase of trust units	(11,797,862)	(4,685,318)
	(9,523,954)	(2,653,538)
Distributions to Unitholders: (note 7)		
From net investment income	(11,653,907)	(12,333,034)
<b>Net Assets – end of year</b>	\$ 159,028,143	\$ 165,089,610
<b>Distributions per unit</b>	\$ 0.8496	\$ 0.8496

see accompanying notes

# Statement of Investments

	December 31, 2005					December 31, 2004				
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market		
<b>Oil &amp; Gas Royalty Trusts</b>										
Acclaim Energy Trust	265,000	\$ 3,220,180	\$ 5,021,750		350,000	\$ 4,253,068	\$ 5,040,000			
ARC Energy Trust	295,000	3,950,511	7,814,550		295,000	3,950,511	5,280,500			
Baytex Energy Trust	150,000	2,237,385	2,655,000		—	—	—			
Bonavista Energy Trust	249,500	4,511,838	9,505,950		249,500	4,511,839	6,761,450			
Crescent Point Energy Trust	250,000	3,000,000	5,170,000		250,000	3,000,000	4,212,500			
Esprit Energy Trust	230,000	2,799,757	3,095,800		350,000	4,260,500	4,336,500			
Fairborne Energy Trust	200,000	3,077,122	3,300,000		—	—	—			
Harvest Energy Trust	132,141	1,915,101	4,914,324		195,000	2,808,000	4,475,250			
NAV Energy Trust	—	—	—		114,800	1,158,000	1,164,072			
Paramount Energy Trust	148,700	1,836,445	3,296,679		168,700	2,083,445	2,689,078			
Vault Energy Trust	240,000	2,420,299	2,736,000		—	—	—			
Vermilion Energy Trust	300,000	4,297,370	8,922,000		300,000	4,297,370	6,036,000			
	33,266,008	56,432,053	35.5%		30,322,733	39,995,350	24.2%			
<b>Ongoing Business Trusts</b>										
ACS Media Income Fund	—	—	—		300,000	2,843,700	2,820,000			
Advanced Fiber Technologies Income Fund	—	—	—		210,000	2,683,800	1,245,300			
The Brick Group Income Fund	220,000	2,220,240	2,048,200		220,000	2,200,000	3,071,200			
Chemtrade Logistics Income Fund	220,000	3,648,040	2,351,800		220,000	3,648,040	4,466,000			
Cineplex Galaxy Income Fund	311,500	3,118,614	4,547,900		311,500	3,118,614	4,579,050			
Custom Direct Income Fund	350,000	3,323,304	3,447,500		350,000	3,323,304	4,025,000			
Direct Cash Income Fund	—	—	—		42,500	425,000	590,750			
Entertainment One Income Fund	250,000	2,501,000	1,250,000		250,000	2,501,000	2,970,000			
Hot House Growers Income Fund	379,400	3,262,282	2,257,430		379,400	3,055,509	2,200,520			
KCP Income Fund	240,000	2,659,733	2,208,000		240,000	2,659,733	2,721,600			
Livingston International Income Fund	151,400	2,162,095	3,406,500		151,400	2,162,095	3,398,930			
Medical Facilities Corporation	301,200	3,023,038	3,448,740		301,200	3,023,038	3,644,520			
Noranda Income Fund	—	—	—		130,000	1,303,313	1,631,500			
Prizm Canadian Income Fund	460,000	4,666,020	4,370,000		460,000	4,666,020	6,798,800			
Rogers Sugar Income Fund	815,000	3,060,549	3,015,500		1,000,000	3,755,275	4,500,000			
SFK Pulp Fund	—	—	—		475,000	3,540,727	3,443,750			
Second Cup Royalty Income Fund	245,000	2,360,055	2,376,500		160,000	1,600,000	1,899,200			
Specialty Foods Group Income Fund	—	—	—		300,000	2,440,293	1,350,000			
Sun Gro Horticulture Income Fund	335,000	3,057,335	2,261,250		335,000	3,057,335	2,730,250			
TimberWest Forest Corp.	—	—	—		175,000	1,974,694	2,639,000			
TransForce Income Fund	350,000	3,262,515	5,971,000		400,000	3,625,453	6,092,000			
	42,324,820	42,960,320	27.0%		57,606,943	66,817,370	40.4%			
<b>Pipeline/Energy Investments</b>										
CCS Income Trust	135,000	1,620,000	4,995,000		90,000	2,160,000	3,953,700			
Energy Savings Income Fund	250,000	3,041,500	4,747,500		340,000	4,136,440	6,545,000			
Heating Oil Partners Income Fund	—	—	—		223,000	2,901,230	1,594,450			
Stoneham Drilling Trust	—	—	—		39,600	475,200	475,200			
Superior Plus Income Fund	150,000	3,387,489	3,525,000		115,000	2,746,648	3,452,300			
Trinidad Energy Services Income Fund	200,000	990,000	3,164,000		420,000	2,079,000	4,384,800			
	9,038,989	16,431,500	10.3%		14,498,518	20,405,450	12.3%			
<b>Dividend Paying Common Shares</b>										
Bank of Montreal	40,000	2,210,232	2,600,000		40,000	2,210,232	2,310,400			
Barrick Gold Corporation	80,000	2,034,128	2,592,800		80,000	2,034,128	2,320,000			
BCE Inc.	—	—	—		160,000	4,553,920	4,627,200			
Domtar Inc.	—	—	—		150,000	2,217,000	2,175,000			
Shawcor Ltd. Class A	200,000	2,784,888	3,112,000		200,000	2,784,888	2,402,000			
The Thomson Corporation	80,000	3,301,389	3,172,800		—	—	—			
	10,330,637	11,477,600	7.2%		13,800,168	13,834,600	8.4%			

(continued on following page)

<b>Real Estate Investment Trusts</b>						
Calloway Reit	200,000	2,100,000	4,748,000	236,800	2,486,400	4,440,000
Dundee Reit	-	-	-	100,000	2,232,847	2,560,000
InnVest Reit	200,000	2,260,981	2,508,000	200,000	2,260,981	2,380,000
O & Y Reit	-	-	-	170,000	1,876,806	2,397,000
Retirement Residences Reit	400,000	4,458,461	3,500,000	400,000	4,458,461	4,120,000
	8,819,442	10,756,000	6.7%	13,315,495	15,897,000	9.6%
<b>Non-Dividend Paying Common Shares</b>						
CanWest Global Communications Inc.	330,000	3,359,332	3,181,200	200,000	2,045,300	2,892,000
Chamaelo Exploration Ltd.	75,000	569,343	573,750	-	-	-
	3,928,675	3,754,950	2.4%	2,045,300	2,892,000	1.8%
Citadel Income & Growth - repurchased units to be cancelled	8,300	89,039	89,889	0.1%	-	-
<b>Investments</b>		107,797,610	141,902,312	89.2%	131,589,157	159,841,770
<b>Cash and Term Deposits</b>		17,168,412	17,168,412	10.8%	5,460,137	5,460,137
<b>Total</b>		\$ 124,966,022	\$ 159,070,724	100.0%	\$ 137,049,294	\$ 165,301,907
						100.0%

All portfolio holdings are trust units or common shares as noted, except for the following: Medical Facilities Corporation – income participating security; Noranda Income Fund – priority units; TimberWest Forest Corp. – stapled units.

## Notes to Financial Statements

December 31, 2005 and 2004

### 1. STRUCTURE OF THE FUND

Citadel Income & Growth Fund (the “Fund” or “Citadel Income & Growth”) is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 11, 2003 and amended October 16, 2003. The Fund commenced operations upon completion of its initial public offering on October 16, 2003. The term of the Fund continues until June 30, 2010 in accordance with the provisions of the Fund’s Declaration of Trust.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

#### (a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers’ acceptances with maturities of less than 90 days on acquisition.

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to unitholders in 2005 and 2004, no provision for income taxes has been made in these financial statements.

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

#### (e) Financial instruments

The fair values of the Fund’s financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

### 3. UNITHOLDERS' CONTRIBUTION

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2005		2004	
	Number	Amount	Number	Amount
Trust units – beginning of year	14,349,822	\$ 135,224,527	14,613,166	\$ 137,850,903
Issued for services (note 4)	174,353	1,846,921	172,726	1,736,425
Issued under DRIP	34,518	399,824	30,680	322,517
Repurchase of trust units	(1,088,233)	(11,797,862)	(466,750)	(4,685,318)
Trust units – end of year	13,470,460	\$ 125,673,410	14,349,822	\$ 135,224,527

The weighted average number of units outstanding in 2005 was 13,785,739 (2004 – 14,537,085 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2005, Citadel Income & Growth repurchased 685,833 trust units under this program at an average cost of \$10.77 per unit (2004 – 466,750 units at an average cost of \$10.04 per unit).

On February 11, 2005, the Fund entered into a normal course issuer bid whereby a total of 1,434,982 units may be repurchased for cancellation over a period of twelve months. For the period ended December 31, 2005, the Fund had repurchased a total of 402,400 units at an average cost of \$10.96 per unit pursuant to this bid (2004 – no units).

Unitholders of Citadel Income & Growth can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Fund at the 5 day weighted average market price of the Fund's units. In 2005, 34,518 units were issued under the DRIP (2004 – 30,680 units).

### 4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel IG Management Ltd. ("CIGM") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2005, the Fund issued 167,808 trust units (2004 – 166,526 units) and recorded an expense of \$1,909,326 (2004 - \$1,791,104) in respect of the administrative and investment management fees during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2005, included in accounts receivable were amounts owed from CIGM of \$94,408 (2004 - \$57,063).

Directors of CIGM received a total of 6,545 trust units (2004 – 6,200 units) as payment for their annual retainers.

### 5. TRAILER FEE

Citadel Income & Growth pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2005, the Fund recorded an expense of \$642,398 (2004 -\$608,703) relating to the trailer fee.

### 6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2005	2004
Net proceeds from the sale of securities	\$ 41,066,794	\$ 29,885,990
Less cost of securities sold:		
Investments at cost – beginning of year	131,589,157	102,096,895
Investments purchased during year	18,351,390	56,311,779
Investments at cost – end of year	(107,797,610)	(131,589,157)
Cost of investments disposed of during year	42,142,937	26,819,517
Net realized gain (loss) on sale of investments	\$ (1,076,143)	\$ 3,066,473

## 7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at \$0.0708 per unit based upon cash distributions received by the Fund less estimated expenses.

	2005	2004
Net investment income for the year	\$ 10,340,450	\$ 10,662,825
Add fees paid by issuance of units	1,846,921	1,736,428
<u>Capital distributed (cash retained)</u>	<u>(533,464)</u>	<u>(66,219)</u>
Cash distributions	\$ 11,653,907	\$ 12,333,034
<b>Cash distributions per unit</b>	<b>\$ 0.8496</b>	<b>\$ 0.8496</b>

## 8. BROKER COMMISSIONS

The Fund paid commissions to brokers of \$118,645 in 2005 (2004 - \$163,299) in relation to the purchase and sale of investments.

## 9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

# Corporate Information

## Administrators

Citadel Diversified Management Ltd.  
Citadel S1 Management Ltd.  
Citadel TEF Management Ltd.  
Citadel CPRT Management Ltd.  
MYDAS Management Inc.  
Citadel Multi-Sector Management Inc.  
Citadel Series Management Ltd.  
Citadel IG Management Ltd.  
Equity Lift Management Ltd.  
N.A. Energy Management Inc.  
Stable Yield Management Inc.  
Sustainable PE Management Inc.  
Equal Weight Management Ltd.  
Suite 3500, 350 - 7th Avenue S.W.  
Calgary, Alberta T2P 3N9  
Telephone: (403) 261-9674  
Toll Free: 1 877 261-9674  
Fax: (403) 261-8670  
Website: [www.citadelfunds.com](http://www.citadelfunds.com)  
Email: [info@citadelfunds.com](mailto:info@citadelfunds.com)

## Directors and Officers

Harold P. Milavsky - Chairman of the Board  
Paul L. Waitzer - Director  
Doug D. Baldwin - Director  
Kent J. MacIntyre - Director  
James T. Bravall - Director and Chief Executive Officer  
Darren K. Duncan - Chief Financial Officer

## Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un, MYF.un,  
CMS.un, SRC.un, CIF.un and CSR.un)  
Bloom Investment Counsel, Inc.  
Suite 1710, 150 York Street  
Toronto, Ontario M5H 3S5

## Investment Manager

(EPF.un and SPU.un)  
Galileo Equity Management Inc.  
161 Bay Street, Suite 4730  
Toronto, Ontario M5J 2S1

## Rebalancing Advisor

(IEP.un and EQW.un)  
Shaunessy Investment Counsel  
Suite 504, 933-17th Avenue S.W.  
Calgary, Alberta T2T 5R6

## Trustee

Computershare Trust Company of Canada  
Sixth Floor  
530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8

## Custodian

CIBC Mellon Global Securities Services Company  
320 Bay Street, 6th Floor  
Toronto, Ontario M5H 4A6

## Legal Counsel

Stikeman Elliott LLP  
4300 Bankers Hall West  
888 - 3rd Street S.W.  
Calgary, Alberta T2P 5C5

## Auditors

PricewaterhouseCoopers LLP  
3100, 111 - 5th Avenue S.W.  
Calgary, Alberta T2P 5L3

## Stock Exchange Listings

The Toronto Stock Exchange  
Citadel Diversified Investment Trust units: **CTD.un**  
Citadel S-1 Income Trust Fund units: **SDL.un**  
Citadel HYTES Fund units: **CHF.un**  
Citadel SMaRT Fund units: **CRT.un**  
MYDAS Fund units: **MYF.un**  
Citadel Multi-Sector Income Fund units: **CMS.un**  
Series S-1 Income Fund units: **SRC.un**  
Citadel Income & Growth Fund units: **CIF.un**  
Income & Equity Index Participation Fund units: **IEP.un**  
Energy Plus Income Trust units: **EPF.un**  
Citadel Stable S-1 Income Fund units: **CSR.un**  
Sustainable Production Energy Trust units: **SPU.un**  
Equal Weight Plus Fund units: **EQW.un**





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